

Developing Financial Expertise

Charles Kalish

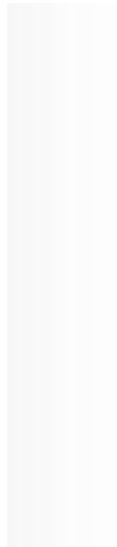
Educational Psychology

University of Wisconsin-Madison

What has he got that I ain't got?

Physical Capital

Social Capital



Warren Buffett
Chairman, Berkshire Hathaway

Human Capital

Knowledge
Experience
Habits
Attitudes

Expertise



How to develop expertise



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Formal Knowledge

Facts
Calculations
Rules

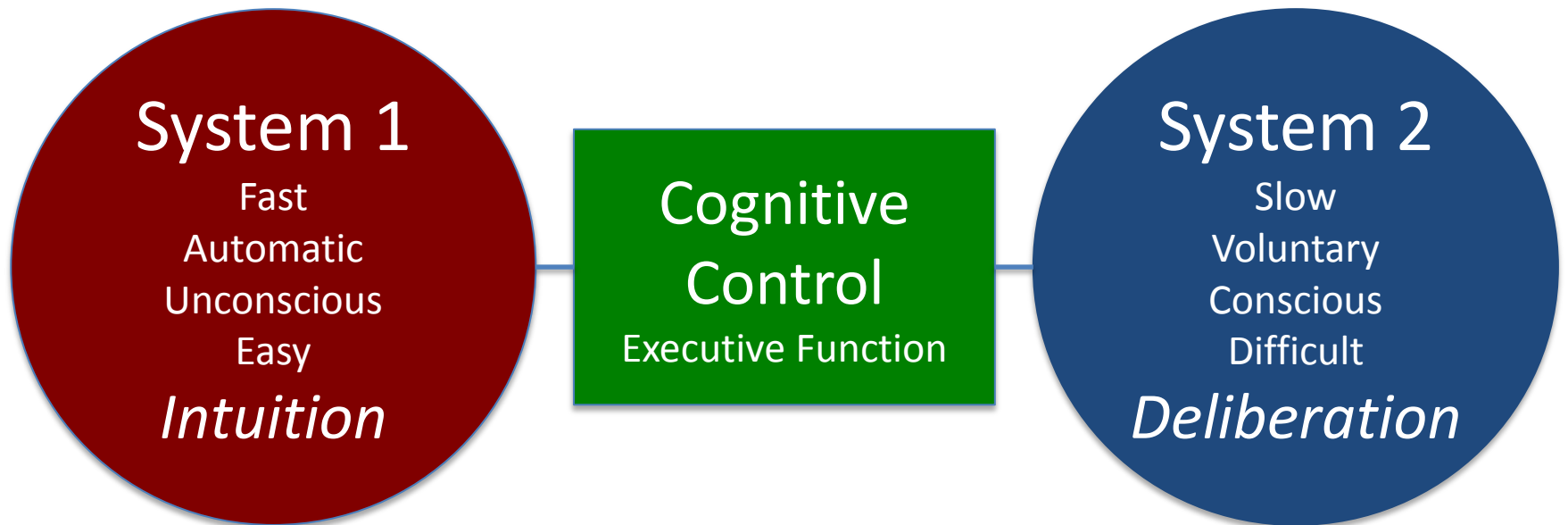
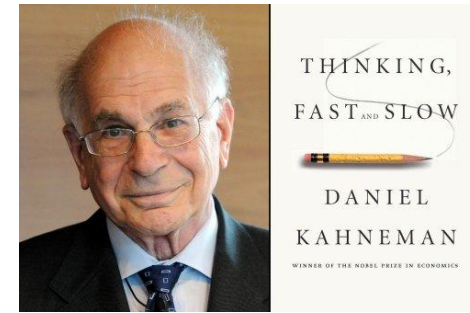
Self-control

Planning
Delay of Gratification
Emotional Regulation

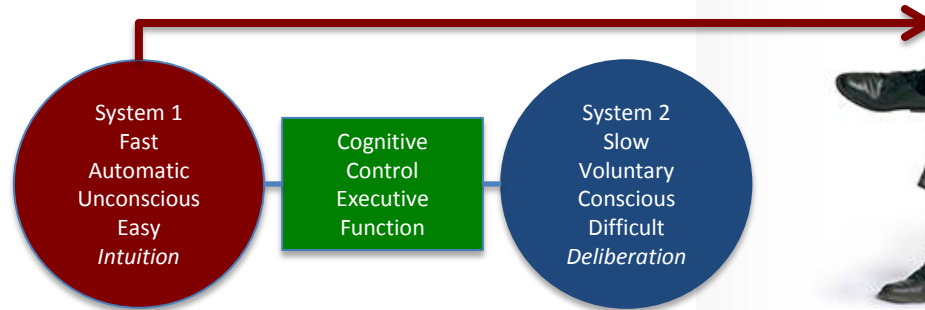
Common Sense

Habits
Intuitions/Instincts
Feelings/Attitudes

Dual-process Theory



How to develop expertise



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Educators: Formal Instruction
Improve System 2

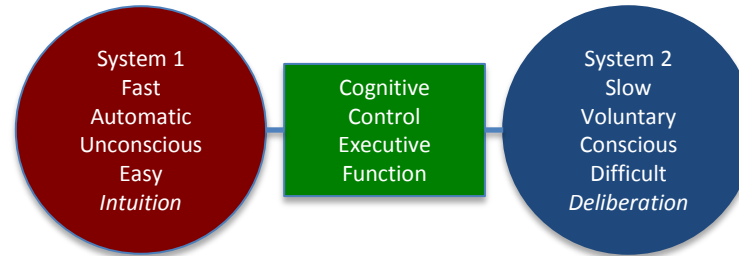
Neuroscientists: Executive
Function Training
Improve ability to act on
System 2

Economists: Change Decision
Environment
Reduce demands on
Control & Costs of error

Psychologists: Improve Intuitions
Develop better common
sense judgments and
attitudes



How to develop expertise



Educators: Formal Instruction
Knows the risks of texting

Neuroscientists: EF Training
Can avoid temptation to
text

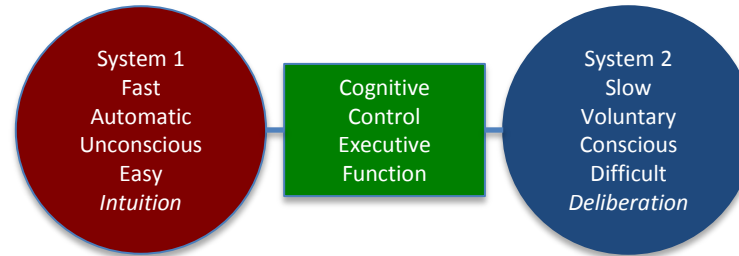
Economists: Environment
Graduated licenses
Warning signs
Signal blocking

Psychologists: Improve Intuitions
Doesn't consider texting





Temporary Measures



Educators: Formal Instruction
Knows the risks of texting

Neuroscientists: EF Training
Can avoid temptation to text

Economists: Environment
Graduated licenses
Warning signs
Signal blocking

Keep him alive until he gets better intuitions



Strategy #4: Improve Intuitions

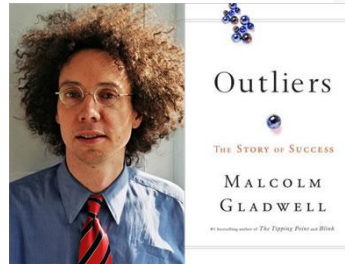


How to develop better intuitions?



Time & Practice

10,000 hour rule

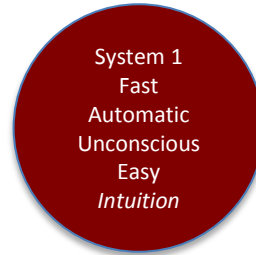


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Depends on the intuitions

Some things are easier than others

Are Good Financial Intuitions Difficult?



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Yes!

Why?

What are Financial Intuitions?



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Dealing with Risk & Uncertainty

- Our minds are just not made for this
- Financial intuitions will often be wrong
- Help people manage without them



Dealing with Social Exchange

- Our minds are made for this
- Finance is a way of getting people to do what you want
- Expected Utility
- Sometimes a very useful way



How to Get People to Do What You Want

Pay them

Rely on Market & Expected Utility



Many other ways

Alan Fiske (1992) "Relational Models"

Phillip Tetlock (2005) "Relational Framing"

How to Get People to Do What You Want

Pay them

Rely on Market & Expected Utility

Ask them

Rely on Communal Sentiment

Invite your cousin to your wedding



Order them

Rely on Respect for Authority

Boss tells you not to smoke at work

Swap them

Rely on Expectation of Reciprocity

Friend asks for help moving



Money is for Strangers

Pay them

Rely on Market

Expected Utility



Children tend not to have much practice dealing with strangers

They are not very good at it

More familiar with other forms of relating

Many adults find this odd or uncomfortable as well

Expected Utility Can be Part of Social Exchange

Lens or perspective



Tradeoffs/Marginal Utility

Who can't I invite if I ask my cousin?



Time Preference

Is it worth waiting?

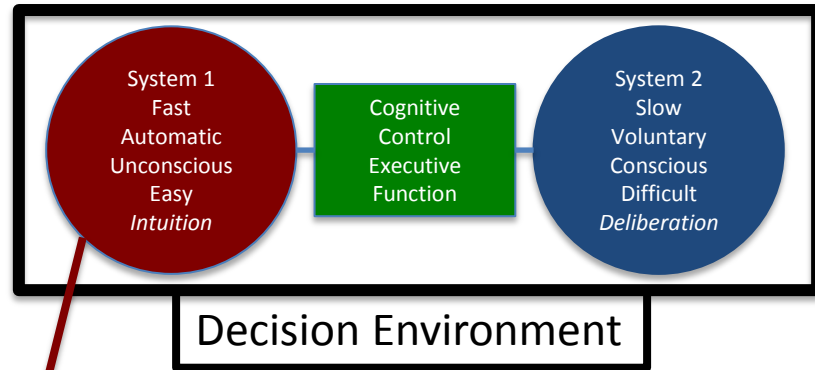


Comparative Advantage

Should I bring lunch or help carry?

Summary

Many ways to intervene to improve financial expertise



Financial intuition, using an expected utility lens, is a central aspect of expertise



Give people practice and confidence using this lens

Price is what you pay. Value is what you get.

I don't look to jump over 7-foot bars: I look around for 1-foot bars that I can step over.

Someone's sitting in the shade today because someone planted a tree a long time ago.

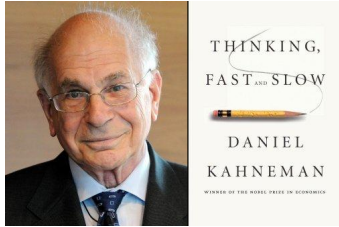
Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.

You only find out who is swimming naked when the tide goes out.

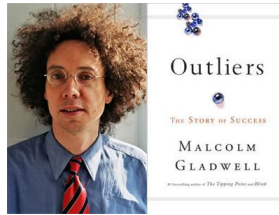


I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will.

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